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## EMED

### Spain – Potential For Reserve Upgrade

23.5p 11.7.2008



2008 has to date been a magnificent year for investors in EMED. The shares have doubled, from 11.65p to 23.5p, since our first research note in March 2007. On the day after an encouraging presentation at the *Minesite* conference in London last month, they reached 30p. Our current thoughts are:

- While the current share price very probably undervalues the group, the market is quite correct to hold some value back for the lack of an environmental and other permits at the Rio Tinto Mine in Spain. We cite **European Nickel** as an example.
- The Rio Tinto ore grades are eminently compatible with similar operating, profitable mines elsewhere in the world, and if the permit comes through will provide a good cash flow to fund further exploration and development.
- The deposit is open at depth and has not been explored by modern methods in the last 20 years. There is the potential for longer mine life, and higher annual production, than bare statistics currently suggest.
- The gold-bearing structure at Bierly Vrch in Slovakia could be in line to become a world class gold deposit.

We understand the excitement. Shareholders should be delighted with progress. Those who were in at 11.65p, and have doubled their money, may see benefit in locking in a little of that profit, however.

**Share Price:** 23.5p

**12m High:** 30p

**12m Low:** 8p

**Market Cap:** £55m

**Shares in Issue:** 200m undiluted  
236m diluted

**Gearing:** Nil – net cash

**Interest Cover:** n.a.

**EPIC Code:** EMED

**Sector:** Mining

**Market:** London AIM

**Brokers:** Fox Davies Capital  
Pannmure Gordon

**NOMAD:** RFC Corporate Finance

**PR:** Parkgreen

**Website:** [www.emed-mining.com](http://www.emed-mining.com)  
[www.emed.tv](http://www.emed.tv)

**Previous Research Note:** '£10m Equity Financing'. 13.5.2008, 23.5p

**Analysts:** Gift Rukezo /Roger Hardman

# EMED Mining's Two Major Prospects

EMED Mining has two prospects of immediate interest to investors, its copper mine in Spain (currently non-operational) and a gold bearing structure at Bierly Vrch in Slovakia that has been partly drilled, though as yet not to JORC compliant standards.

## Rio Tinto Mine

At the Rio Tinto Mine in Spain, EMED Mining has taken control of a long established existing mining operation, complete with milling equipment and all infrastructure. The mine has been mothballed since 2000, so some work is necessary in order for production to restart. Even so, if physical constraints were the only issue, we would think a production re-start could be possible as early as mid-2009 provided all the necessary permits to proceed with the operation are put in place within the six couple of months.

An operational restart (including environmental aspects) permit is needed before production can restart, however. In theory this should not be a problem, because other similar operations have received the necessary permits from the Spanish authorities. However, the Rio Tinto Mine comes from its previous owners with some past baggage and EU Directives have raised the standards since its initial construction.

We have not at this stage undertaken a site visit. Our comments should be read with this in mind.

We would point, as one example to the problems **European Nickel** has experienced in Turkey with its Caldag deposit; here production has been severely limited by the non-arrival of a permit to fell trees that some investors expected to be granted three years ago. European Nickel is still waiting, although the issue does now appear closer to being resolved..

- EMED Mining looks set to restart operations at the Rio Tinto Mine in the Spanish part of the Iberian Pyrite Belt. The mine is currently under care and maintenance.
- With measured and indicated resource of 205Mt at 0.46% Cu that is inclusive of a proved and probable reserve of 123Mt at 0.48% Cu, at a cut-off grade of 0.20%, EMED is set to join other operators as a copper producer. We do not doubt the economic viability of the mine given that similar sized copper mines elsewhere are operating profitably.
- There is potential to increase the mineral resource which remains open on strike and with depth. The Rio Tinto Mine could be forecast to mirror the capacities demonstrated by other mid-tier copper producers with similar ore grades, or lower, like the few selected in the table below.

Mine	Reserves (Mt)	Grade (%)	Production (Mt/y)	Employees
Aitik	500	0.28	18.5 (36)	400
Highland-Valley	451	0.38	42.6	956
Alumbrera	400	0.47	11	

**Figure 1: Capacities of comparable mines in production. Aitik ramping up production to 36Mt/y following the discovery of additional resource**

- The mining equipment and processing plant, which have been on care and maintenance since the closure of the mine in 2000, is said to be in good shape for immediate resumption of production. This would ensure a quick turn around for EMED when production starts.
- EMED may not be able to fully optimise the mineral resource with the current infrastructure that achieved a peak production rate of 9Mt/y in 1998. Production at this rate would imply an initial production period of at least 13 years based on the current mineral reserve, and at least

a further 9 years of production assuming that the remainder of the measured and indicated resources will eventually go into production.

- EMED has indicated its desire to increase capacity, a logical move considering the size of the mineral resource and the potential the area has for further discoveries. The quick turn around would imply that the project can refinance itself without recourse to debt funding.
- Environmental and other permitting remains a major area of contention considering the legacy left behind by the previous operators. Going by the other mineral project developments in the area, permitting should not be a problem once all the criteria required to mitigate the likely impacts are met. **Inmet's** Las Cruces mine being developed on the eastern end of the Iberian Pyrite Belt managed to process all the major federal, provincial and municipal permits required to build the mine, plant and infrastructure in the time frame of the development of the mine. However, Las Cruces is a green-field project with solid benchmarks based on the natural state of the environment, whereas the Rio Tinto Mine is in an area that has been mined since the Phoenicians. Whilst the mine site itself was operated professionally by RTZ, it is adjacent to areas known for the massive pollution that is a result of poor practices in the past. The worst Spanish mining environmental event, the tailage spill at Los Frailes which cost its owner **Boliden** \$10m in remediation, took place in 1998 and is therefore now history; lessons have been learned by all sides.
- Besides these bottlenecks, other issues appear to be moving smoothly for EMED to exercise its option for the acquisition of the Rio Tinto Mine:
  - The oversubscribed £10M equity placing in May and its cash balance would leverage it well in raising debt funding for a project requiring capital injection of £75M for a start date of operations by mid-2009.
  - Project development into production after government approval would be virtually in the hands and time frame of EMED as the mine is almost ready to roll. Very little capital expenditure is required, and only for the minor refurbishments to the existing infrastructure. The bulk of the £75M of capital to be used is to replace the debt that will be inherited from the previous operator of the mine. The £75m budget includes the cost of exercising the option to take 100% ownership.
  - The company believes that Government permitting will not be an obstacle once environmental issues are ratified as the project has considerable local support due to the anticipated job market and therefore reduction of unemployment in the region.
- Even if EMED is to ramp up production to double the current capacity of the infrastructure in place, it would be guaranteed of at least 12 years of production, which is the sort of mine life that optimises production in terms NPV of mining projects. We are of the opinion that further extension of mine life can be achieved as the mine sits on the largest copper deposit in Western Europe that has not been explored by modern methods in the past 20 years. This makes it a high potential area for further discoveries.
- The company projects a net operating cash flow of £40M based on the LME Cu price of \$3/lb for the first 5 years and \$2/lb thereafter. This is rather conservative if we are to go by the current spot price of \$4/lb, which would project an EBITDA of £80M. Even though the NAVPS of the company cannot be precisely calculated without the details of the capital structure of the project, we envisage a substantial creation of value to the shareholders if this project is to proceed into production.

## Slovakia Gold Project

We have visited this prospect and commented on it in some detail in past research notes. We suspect that this may, medium term, be the project that EMED becomes best known for, rather than the Spanish

mine that has attracted so much publicity. Our site visit gives us some confidence in voicing an opinion.

- A world class gold deposit at Bierly Vrch project may be in the pipeline for EMED following its 460m continuous intersection of a 1g/t gold mineralisation. Even though the intersection is not the true width, indications are the mineralisation is continuous and remains open to the north, south and down dip.
- A non-compliant 50Mt resource at 0.8 to 1.1g/t Au has been delineated and with further drilling on the open ended zones, EMED appears to be on course towards the discovery of a gold deposit that is a tally to the economic gold porphyry systems typically of more than 100Mt at 0.7g/t – 1.8g/t Au.
- Thickness of the delineated resource is about 200m, which can allow an economic open-pit high tonnage low cost production favoured by low grade gold resources.

## Finance

In May, EMED raised £9.6m net by the issue of new shares at 20p. a share. This issue was subscribed by high quality, mainstream institutions (Oxiana, Fidelity, Resource Capital Funds) and the equity raising was oversubscribed.

EMED's financing strategy requires an estimated £85M to achieve the £75M capital for the restart of the Rio Tinto, £5M for other group activities including the expanded Slovakian exploration, and a further £5M cash buffer. With the £10M equity placing in the pocket, EMED expects the remaining £75M to be provided for by £57M of debt and post-permitting cash flow, and £18M from guarantees and counterparty settlements by instalments from future cash flows.

On the assumption that the debt issue of the £57M funding currently contemplated proceeds smoothly, the capital raising leaves EMED with absolutely no short term financial concerns, which gives it a huge advantage over many other small/medium sized mining companies. If the Rio Tinto Mine moves into production this year then that will be further good news from the point of view of cash flow.

## Conclusion

We are delighted with the progress that this company has made.

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